

## Message Text

LIMITED OFFICIAL USE

PAGE 01 OTTAWA 02465 01 OF 02 070000Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 ITC-01 /081 W  
-----070021Z 091989 /66

R 062340Z APR 77  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 1301  
INFO AMCONSUL MONTREAL  
ALL OTHER AMCONSULS CANADA

LIMITED OFFICIAL USE SECTION 01 OF 02 OTTAWA 02465

E.O. 11652: N/A  
TAGS: ECON, EFIN, EINV, CA  
SUBJECT: STIMULATIVE EFFECTS OF FINMIN MACDONALD'S  
BUDGET

REF: OTTAWA 2243

1. SUMMARY: IN ANALYZING STIMULATIVE EFFECTS OF FINMIN  
MACDONALD'S MARCH 31 BUDGET, EMBASSY COMPARES C\$1.17  
BILLION IN TAX CUTS FOR FY 77/78 WITH NEUTRAL TO SLIGHTLY  
NEGATIVE EFFECTS OF GOC SPENDING RESTRAINT. SINCE IMPACT  
OF SOME TAX CUTS DEPENDS UPON BUSINESS ACTION WHICH COULD  
BE DELAYED UNTIL ECONOMIC CONDITIONS IMPROVE OR ANTI-  
INFLATION CONTROLS ARE LIFTED, FULL EFFECT OF STIMULUS  
MAY NOT BE FELT FOR SEVERAL MONTHS. EMBASSY ESTIMATES  
THAT MODEST STIMULATIVE MEASURES WILL PROBABLY ADD LESS  
THAN 0.5 PERCENTAGE POINT TO PREVIOUS GNP REAL GROWTH  
FORECAST. END SUMMARY.

2. IN SUPPLEMENTARY BUDGET PAPERS, TABLED WITH MACDONALD'S  
SPEECH, ARE ESTIMATES OF REVENUE COSTS (I.E., TAX CUTS)  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OTTAWA 02465 01 OF 02 070000Z

OF C\$1.17 BILLION FOR FY 77/78 AND FOR "FIRST FULL YEAR"  
COSTS OF C\$1.53 BILLION. (LATTER FIGURE IS MORE DUE TO  
FACT THAT SOME OF TAX CUTS DO NOT BECOME EFFECTIVE  
UNTIL AFTER START OF FY 77/78.) ESTIMATED REVENUE COSTS  
BROKEN DOWN AS FOLLOWS:

..... FIRST FULL FY 77-78

..... YEAR  
 ..... (C\$ MILLION)

A. INCREASE IN FEDERAL TAX CREDIT  
 BY \$50 PER EACH DEPENDENT CHILD . . 275 . . . . 275

B. INCREASE IN GENERAL EMPLOYMENT  
 EXPENSE DEDUCTION UNIT TO \$250 . . 115 . . . . 115

C. INCREASED DIVIDEND TAX CREDIT,  
 EFFECTIVE 1/1/78 . . . . . 120

D. INCREASE IN LIMIT FOR CAPITAL-  
 LOSS OFFSET FROM \$1,000 TO \$2,000 . . 45 . . . . 5

E. INCLUSION OF CAPITAL GAINS ON  
 CANADIAN SECURITIES IN INTEREST AND  
 DIVIDEND EXEMPTION . . . . . 10

F. TAX RELIEF IN RESPECT OF  
 BUSINESS INVENTORIES . . . . . 300 . . . . 275

G. FEDERAL INVESTMENT TAX CREDIT . 485 . . . . 385

H. EXTENDED DEPLETION FOR HIGH  
 COST OIL AND GAS WELLS . . . . . 20 . . . . 20

I. EXTENSION OF TEMPORARY TARIFF  
 REDUCTIONS AND OTHER TARIFF  
 MEASURES . . . . . 60 . . . . 45  
 LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OTTAWA 02465 01 OF 02 070000Z

J. OTHER TAX CHANGES . . . . . 100 . . . . 50

TOTAL . . . . . 1,530 . . . 1,170

IN FOOTNOTE TO ABOVE, PAPER POINTS OUT THAT SOME OF TAX  
 CUTS WILL ALSO AFFECT PROVINCIAL REVENUES, AND ASSUMING  
 THAT ALL PROVINCES MAKE NECESSARY ACCOMMODATING CHANGES  
 IN THEIR LEGISLATION, TAXPAYERS COULD SAVE ADDITIONAL  
 C\$165 MILLION IN FY 77/78.

3. OFFSETTING TO SOME DEGREE EXPECTED STIMULATIVE  
 EFFECTS OF THESE TAX REDUCTIONS ARE DECREASES IN FEDERAL  
 SPENDING ESTIMATES. MACDONALD ANNOUNCED CUT OF C\$670  
 MILLION (FROM C\$45,120 MILLION TO \$44,450 MILLION) IN  
 GOC SPENDING ESTIMATES ANNOUNCED IN FEBRUARY BY TREASURY  
 BOARD PRESIDENT, WITH REDUCTION LARGELY IN RESERVE FOR  
 SUPPLEMENTAL ESTIMATES WHICH WOULD NORMALLY BE TABLED  
 LATER IN FISCAL YEAR. TOTAL EXPENDITURE BY GOC WILL GROW

BY 9.8 PERCENT ON A COMPARABLE BASIS WITH FY 76-77  
(I.E. AFTER TAKING ACCOUNT OF CHANGED FINANCING ARRANGEMENTS FOR HEALTH AND HIGHER EDUCATION BY WHICH PROVINCES RECEIVE ADDITIONAL TAX CREDITS IN LIEU OF DIRECT FUNDS), WHICH IS LESS THAN EXPECTED GNP GROWTH IN CURRENT DOLLARS AND PROBABLY REPRESENTS NO GROWTH IN REAL TERMS. THUS FEDERAL GOVERNMENT SPENDING AS PROJECTED BY MACDONALD WOULD APPEAR TO HAVE NEUTRAL TO SLIGHTLY NEGATIVE IMPACT ON ECONOMY.

4. IN ADDITION TO ABOVE, NET FISCAL STIMULUS TO BE PROVIDED IN FY 77/78 MAY BE LESS THAN C\$1.17 BILLION FOR

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OTTAWA 02465 02 OF 02 070005Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 ITC-01 /081 W

-----070020Z 092120 /66

R 062340Z APR 77  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 3088  
INFO AMCONSUL MONTREAL  
ALL OTHER AMCONSULS CANADA

LIMITED OFFICIAL USE SECTION 02 OF 02 OTTAWA 02465

SEVERAL REASONS:

A. TAX CUT FIGURE OF C\$385 MILLION IN FORM OF ADDITIONAL INVESTMENT TAX CREDIT IS SOMEWHAT SUSPECT SINCE BUSINESS MUST INVEST TO OBTAIN CREDIT AND THERE IS AS YET NO INDICATION THAT CANADIAN MANUFACTURING FIRMS, OPERATING AT SLIGHTLY MORE THAN 80 PERCENT CAPACITY, WILL SUBSTANTIALY INCREASE PLANT AND EQUIPMENT EXPENDITURE IN VIEW OF CURRENT SLUGGISH ECONOMIC CONDITIONS. (LATEST SURVEY BY STATISTICS CANADA ON CAPITAL EXPENDITURES IN 1977 SHOWED ONLY 7.1 PERCENT INCREASE OVER 1976, AND INVESTMENT TAX CREDIT OF 5 PERCENT WAS IN EFFECT).

B. OTHER TAX CUTS WILL HAVE TIME LAG BEFORE THEIR EFFECT

ON ECONOMY IS FELT. ALSO, WITH PROFIT CONTROLS STILL IN PLACE UNTIL AT LEAST OCTOBER, BUSINESS FIRMS HAVE LITTLE INCENTIVE TO INCREASE CORPORATE PROFITABILITY THIS YEAR AND MAY HOLD OFF INVESTMENT PLANS UNTIL THEY ARE CERTAIN WHEN AND HOW CONTROLS WILL END.

C. TARIFF CUTS OF C\$45 MILLION INCLUDED IN C\$1.17 BILLION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OTTAWA 02465 02 OF 02 070005Z

FIGURE CANNOT BE CONSIDERED AS DIRECT STIMULUS TO CANADIAN ECONOMY, ALTHOUGH THERE MAY BE SIDE EFFECTS IF CUTS PASSED ON TO CONSUMER.

5. LAST MONTH FINANCIAL POST, IN ITS ANNUAL SURVEY OF ECONOMIC FORECASTER IN CANADA, CLAIMED THAT CONSENSUS AMONG ECONOMISTS BEFORE BUDGET MESSAGE WAS THAT MACDONALD WOULD HAVE TO BRING IN C\$1 BILLION IN STIMULUS IN BUDGET IN ORDER FOR ECONOMY TO REACH 4 PERCENT REAL GROWTH IN 1977. WITHOUT STIMULUS, CONSENSUS FORECAST WAS 3.5 PERCENT WITH RANGE OF 2.5 TO 5.0 GROWTH.

6. ACCORDING TO ECONOMIST FROM CONFERENCE BOARD IN CANADA, WHICH HAD ONE OF LOWEST FORECASTS AT 2.9 PERCENT, BOARD IS STILL HOLDING TO ITS PREDICTION. IN HIS PERSONAL OPINION, MACDONALD'S BUDGET IS NOT SO MUCH A PACKAGE OF FISCAL STIMULATIVE MEASURES AS A SLIGHT MODERATION IN FISCAL RESTRAINT AND EFFECTS ARE ESPECIALLY DIFFICULT TO QUANTIFY.

7. EMBASSY CONCLUDES THAT TOTAL EFFECT ON MACDONALD'S BUDGET PACKAGE WILL PROBABLY ADD LESS THAN 0.5 PERCENTAGE POINT TO GNP GROWTH WHICH IF ADDED TO CONSENSUS FORECAST (PARA 5 ABOVE) WOULD LEAVE EXPECTED GROWTH RATE BELOW 4 PERCENT PROJECTED BY MACDONALD FOR 1977. ENDERS

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** REPORTS, BUDGETS, ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 06-Apr-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977OTTAWA02465  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770120-0968  
**Format:** TEL  
**From:** OTTAWA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770482/aaaactkb.tel  
**Line Count:** 208  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 7c1854a9-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 OTTAWA 2243  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 22-Dec-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2881809  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** STIMULATIVE EFFECTS OF FINMIN MACDONALD'S BUDGET  
**TAGS:** ECON, EFIN, EINV, CA  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/7c1854a9-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009